

MEXICO AND NAFTA

Has NAFTA helped or hindered Mexico's socioeconomic growth?

“Anyone taking an objective look at the recent experience in Mexico would have to conclude that NAFTA is not bringing up standards of living in the three countries involved”-R. Phil English (Pennsylvania) U.S. House of Representatives¹

Introduction.

‘Globalization’ for better or worse is becoming commonplace in today’s working world. Free trade is one of the key elements that has helped ‘globalization’ gain a great deal of momentum. In the past, economies would safeguard themselves with heavy tariffs to protect domestic jobs and strengthen domestic economies. Today, ‘protectionist’ trade practices have been virtually deserted and paved the way for countries to do billions of dollars of trade with each other without the hindrances of tariffs and other bureaucratic headaches.

In theory, free trade should not only strengthen a country’s economy, but also create benefits like increased standards of living, environmental sustainability, expanded innovation and improved foreign relations. In many cases free trade accomplishes all of these things and more; however it can also serve as a gateway for profit-driven corporations to exploit the system. By bypassing stringent domestic labour laws, these corporations can lead to direct and indirect domestic job losses and larger gaps in standards of living in developing nations. Free trade comes at a price, and Mexico is no exception. Proponents of free trade are quick to point to the benefits of open market reform simply in terms of dollars and cents; however, they turn a blind eye to socio-economic and environmental problems caused by free trade.

This paper will examine the idea put forth by President Clinton, Prime Minister Mulroney, and President Salinas and their creation of the North American Free Trade Agreement (NAFTA) and identify whether it has improved Mexico’s working class as

¹(2009) Quotations on NAFTA. Retrieved April 19th, 2009, from <http://www.quotesea.com/Quote.aspx?q=Anyonetakinganobjectivelookattherecent>

promised, or has been an encumbrance to the Mexican worker and the nation itself. It will highlight three main points with regards to environmental issues, standard of living in conjunction with economic impact, and the degradation of the Mexican worker since NAFTA's inception.

ENVIRONMENTAL IMPACT

UNDERTAKE each of the preceding in a manner consistent with environmental protection and conservation²

In comparison to the United States and Canada, Mexico is still behind both countries in terms of its environmental policies and safeguards as well as technologies to promote effective environmental sustainability. A major provision in NAFTA was to conserve and protect the environment, yet upon closer examination it is clear that quite the opposite has taken place.

There was an interesting theory put forth by Simon Kuznetz in which he hypothesised that per-capita income and degradation of the environment were closely related³. He suggested that with developing nations such as Mexico, pollution and emissions are high during the developmental period and consequently the environment suffers. However, over time the per-capita reaches a "tipping point" (approximately \$5,000 USD⁴) and the environment will actually improve as a result. Mexico however seems to be defying this theory because pollution has increased significantly since NAFTA was signed.

Environmental clauses in NAFTA were expected to hasten Mexico to adopt stricter environmental policies; but the results have been less than desired. Mexico opened its economy in 1985 which ironically coincided exactly with Mexican per-capita

² (n.a) (Updated December 16,2008). Foreign Affairs and International Trade Canada. Retrived April 27th, 2009, from http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/texte/index.aspx?lang=en&menu_id=34&menu=R

³ Gallagher, K. (2006). Free Trade and the environment:Mexico, NAFTA, and beyond. Retrieved April 21st, 2009, from <http://ase.tufts.edu/gdae/Pubs/rp/NAFTAEnviroKGAmerProgSep04.pdf>

⁴ Gallagher, K. (2006). Free Trade and the environment:Mexico, NAFTA, and beyond. Retrieved April 21st, 2009, from <http://ase.tufts.edu/gdae/Pubs/rp/NAFTAEnviroKGAmerProgSep04.pdf>

income (in PPP) reaching the “tipping point” of \$5,000 USD⁵. Yet between 1985 and 1999, pollution levels sky-rocketed. Rural soil eroded by 89%, municipal solid waste increased by 108%, water pollution increased by 29% and urban air pollution increased by 97%.⁶

What’s even more alarming is that the financial benefits of trade for Mexico is outweighed heavily by the damage it does to the environment in dollar terms. Between 1985 and 1998, the environmental damage caused by Mexico was valued at approximately \$36 billion dollars each year and \$47 billion in 1999⁷. These figures dwarfed the economic growth figures which during the same period were valued at \$14 billion dollars⁸.

The inception of NAFTA should have signalled major environmental reform in Mexico. Leading up to the historic signing, Mexico was making a concentrated effort on improving environmental standards by doubling its spending on environmental practices⁹. Yet once NAFTA was signed, there were major financial concerns (1995 peso crisis) and thus environmental issues took a backseat. As a result, environmental protection spending decreased by 45%¹⁰ (\$200 million USD) in Mexico.

If one of the provisions in NAFTA was to promote environmental responsibility, what explains the aforementioned statistics? Economists may simply equate it to a tragedy of the commons, and to an extent that may be true, but analysis seems to indicate another scenario. The Commission for Environmental Cooperation (CEC), North American Agreement on Environmental Cooperation (NAAEC) and the North American

⁵ Gallagher, K. (2006). Free Trade and the environment:Mexico, NAFTA, and beyond. Retrieved April 21st, 2009, from <http://ase.tufts.edu/gdae/Pubs/rp/NAFTAEnviroKGAmerProgSep04.pdf>

⁶ Gallagher, K. (2006). Free Trade and the environment:Mexico, NAFTA, and beyond. Retrieved April 21st, 2009, from <http://ase.tufts.edu/gdae/Pubs/rp/NAFTAEnviroKGAmerProgSep04.pdf>

⁷ Gallagher, K. (2004). Paying For NAFTA. Retrieved April 19th, 2009, from http://www.mediaaccuracy.org/files/pdfs/Trade_NAFTA.pdf

⁸ Gallagher, K. (2004). Paying For NAFTA. Retrieved April 19th, 2009, from http://www.mediaaccuracy.org/files/pdfs/Trade_NAFTA.pdf

⁹ Gallagher, K. (2006). Free Trade and the environment:Mexico, NAFTA, and beyond. Retrieved April 21st, 2009, from <http://ase.tufts.edu/gdae/Pubs/rp/NAFTAEnviroKGAmerProgSep04.pdf>

¹⁰ Gallagher, K. (2006). Free Trade and the environment:Mexico, NAFTA, and beyond. Retrieved April 21st, 2009, from <http://ase.tufts.edu/gdae/Pubs/rp/NAFTAEnviroKGAmerProgSep04.pdf>

Commission for Environmental Cooperation (NACEC) were some of the organizations created to monitor the environmental impacts of NAFTA. These agencies have proven to be effective despite the fact that they have very limited resources, and are overlooked by their respective governments. To make matters worse, Mexico only receives a third of the \$9 million dollar budget from NACEC¹¹. This figure may suggest that these environmental agencies are purely superficial and that economic dollars are more important than adhering to environmental regulations set forth in NAFTA.

STANDARD OF LIVING / ECONOMIC IMPACT

*CREATE new employment opportunities and improve working conditions and living standards in their respective territories*¹²

In theory, an improved economy should result in a higher standard of living for its citizens. However, in Mexico poverty and unemployment have actually increased since NAFTA was enacted in addition to an increase in illegal aliens crossing from Mexico to the United States in recent years.

Immediately following NAFTA, FDI (foreign direct investment) surged. From 1993 to 1994, FDI increased from \$4 billion USD to over \$10 billion USD¹³. This also coincided with over 28,000 small to medium business in Mexico going under in the five years following the implementation of NAFTA¹⁴. One can argue that, this was (and still is) a major flaw within NAFTA and that has been the rapid growth of *Maquiladoras* (Mexican sweatshops) along the border. (From 1994-2000, Maquiladora employment

¹¹ Gallagher, K. (2006). Free Trade and the environment: Mexico, NAFTA, and beyond. Retrieved April 21st, 2009, from <http://ase.tufts.edu/gdae/Pubs/rp/NAFTAEnviroKGAmerProgSep04.pdf>

¹² (n.a.) (December 16,2008) Foreign Affairs and International Trade Canada. Retrived April 27th, 2009, from http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/texte/index.aspx?lang=en&menu_id=34&menu=R

¹³ Tunea, C. (2006). Patterns of FDI in Mexico after NAFTA-The role of Market exports and Geographical determinants. Retrieved April, 27th, 2009, from <http://economics.ca/2006/papers/0248.pdf>

¹⁴ (n.a.)(1999). School of Real-Life Results;Report Card.1999. Retrieved on April 26th, 2009 from <http://www.hartford-hwp.com/archives/40/086.html>

grew 110%¹⁵) These factories, many of which have been funded through foreign investment from the United States, pay their workers virtually nothing. (a 2004 article stated that an average Maquiladora worker earns on average \$1.50 USD per hour¹⁶) This led to a rapid growth of FDI due to cheap foreign labour, and further emancipation of the Mexican worker.

In 2004, the Washington post reported that ten years after NAFTA was enacted, 19 million more people were living in poverty than twenty years ago, and nearly one in four Mexicans were unable to afford adequate food¹⁷. If one of the provisions of NAFTA was to create new employment opportunities and raise living standards, why has poverty increased in Mexico?

Mexico is a nation rich in agricultural products such as corn, tomatoes, onions and grain. Prior to NAFTA, the agricultural sector comprised 7% of Mexico's GDP and almost a quarter of Mexico's workforce¹⁸. Mexico had installed heavy trade barriers and had government support in the form of price floor guarantees, low interest loans and subsidies so the agricultural industry could be competitive in the global market¹⁹; when NAFTA took effect, all of these programs were eliminated which decimated the rural Mexican farmer. Before NAFTA, corn was Mexico's dominant agricultural product resulting in 3 million farmers producing it²⁰. Once NAFTA was put in place, the corn market virtually collapsed in Mexico as a result of Mexico's inability to adhere to its own import quotas and America selling corn to Mexico below cost at a cheaper price than

¹⁵Gruben, W. (2001). Was NAFTA behind Mexico's high maquiladora growth? - Statistical Data Included. Retrieved April 26th, 2009, from http://findarticles.com/p/articles/mi_m0DKI/is_2001_3/ai_82092014/

¹⁶(n.a.) (October, 2004) Mexico: Social Security, Migration, Economy. Migration News, Volume Ten, Number Four. Retrieved April 28th, 2009, from http://migration.ucdavis.edu/mn/more.php?id=3048_0_2_0

¹⁷Jordan, M. and Sullivan, K. (2003). Trade Brings Riches, But Not To Mexico's Poor. Retrieved April 28th, 2009, from <http://www.globalpolicy.org/soecon/ffd/2003/0322mexico.htm>

¹⁸Burfisher, M., Robinson, S. and Thierfelder, K. (2001) The Impact Of NAFTA on the United States. Journal Of Economic Perspectives, Volume Fifteen, Number One, pp-125-144. Retrieved April 27th, 2009, from <http://199.33.141.23/faculty/webpages/dtaylor/impact%25of%25nafta.pdf>

¹⁹(n.a.) (2004). The Ten Year Track Record Of The North American Free Trade Agreement. The Mexican Economy, Agriculture and Environment. Retrieved April 27th, 2009, from http://www.citizen.org/documents/NAFTA_10_mexico.pdf

²⁰(n.a.) (2004). The Ten Year Track Record Of The North American Free Trade Agreement. The Mexican Economy, Agriculture and Environment. Retrieved April 27th, 2009, from http://www.citizen.org/documents/NAFTA_10_mexico.pdf

Mexican grown corn. One of the fears of NAFTA was that rural Mexican farmers would not be able to compete with large scale American production and that displaced workers would flock illegally across the border or to heavily populated urban areas in Mexico to look for work, which may be a reason for underemployment in large cities in Mexico. This concern led to Mexico creating import quotas on corn coming from Canada and the United States. In 1994, Mexico allowed 2.5 million tonnes of corn from the United States and 1,000 tonnes from Canada to enter Mexican borders²¹. Any corn imported exceeding this endured a tariff rate of 215%, until 1999 when the tariff rate was reduced to 24%²². These tariffs were created to protect Mexico's corn industry, yet their corn imports exceeded these figures and yet they did not apply the tariffs²³. In a bitter twist of irony, Mexico now imports its corn from the United States.

The decimation of the rural farmer in Mexico may be directly linked to the surge in illegal immigration of Mexicans within the United States and massive migration to large urban areas in Mexico in recent years. The number of illegal Mexican immigrants has ballooned from 3.9 million people in 1992 to 12 million in 2005²⁴. This idea is supported by the fact that the USDA (United States Department of Agriculture) estimates that between 2.2 and 3.1 illegal Mexican immigrant workers work in three agri-food sectors which are farming and fishing, meat and fish processing and food service.²⁵ Albert Gomez, a prominent agricultural head for Mexican farmers was quoted as saying "We don't want to come to the city and we don't want to emigrate to the United States. But people have no money."²⁶

²¹ Burfisher, M., Robinson, S. and Thierfelder, K. (2001) The Impact Of NAFTA on the United States. *Journal Of Economic Perspectives*, Volume Fifteen, Number One, pp-125-144. Retrieved April 27th, 2009, from <http://199.33.141.23/faculty/webpages/dtaylor/impact%25of%25nafta.pdf>

²² Burfisher, M., Robinson, S. and Thierfelder, K. (2001) The Impact Of NAFTA on the United States. *Journal Of Economic Perspectives*, Volume Fifteen, Number One, pp-125-144. Retrieved April 27th, 2009, from <http://199.33.141.23/faculty/webpages/dtaylor/impact%25of%25nafta.pdf>

²³ Burfisher, M., Robinson, S. and Thierfelder, K. (2001) The Impact Of NAFTA on the United States. *Journal Of Economic Perspectives*, Volume Fifteen, Number One, pp-125-144. Retrieved April 27th, 2009, from <http://199.33.141.23/faculty/webpages/dtaylor/impact%25of%25nafta.pdf>

²⁴ (n.a)(n.d.)Retrieved April 21st, 2009, from <http://www.citizen.org/documents/ImpactsonMexicoMemoOnePager.pdf>

²⁵ Spieldoch, A.(2008). NAFTA Takes the Political Spotlight: It's About Time. Retrieved April 30th, 2009, from <http://www.iatp.org/iatp/commentaries.cfm?refID=102007>

²⁶ Jordan, M. and Sullivan, K. (2003). TradeBrings Riches, But Not To Mexico's Poor. Retrieved April 28th, 2009, from <http://www.globalpolicy.org/socecon/ffd/2003/0322mexico.htm>

NAFTA has failed on many levels to achieve this provision of NAFTA, and with the emergence of China, Mexico faces many challenges ahead in terms of job creation.

WORKER'S RIGHTS IN MEXICO

PROTECT, enhance and enforce basic workers' rights²⁷

A major reason why poverty increased has been a result of unemployment and a decrease in real wages being paid to the Mexican worker. A 2006 study indicated that inflation adjusted wages from 1994-2000 for every category of the Mexican worker actually decreased²⁸ which could be in part due to maquiladoras. A study by the Economic Policy Institute suggested that maquiladora wages are kept deliberately low, and that benefits and worker's rights are virtually non-existent²⁹.

Jose Miguel Vivanco, director of Human Rights Watch for the Americas was quoted as saying, "The NAFTA labour accords suffer from both structural defects and a lack of political will³⁰" This is evident by the lack of action of governing bodies (National Administrative Office-NAO) within Canada, Mexico, and America to enforce punishment against offenders. From 1994-2001 there were fourteen serious complaints about workers right being violated in Mexico³¹; several MNE's were accused such as GM, SONY, Honeywell and General Electric of wrongdoing. Of those fourteen cases,

²⁷ (n.a.) (December 16,2008) Foreign Affairs and International Trade Canada. Retrived April 27th, 2009, from http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/texte/index.aspx?lang=en&menu_id=34&menu=R

²⁸ (NA) (NA). Retrieved April 21st, 2009, from

<http://www.citizen.org/documents/ImpactsonMexicoMemoOnePager.pdf>

²⁹ (2001). After NAFTA, FTAA Could Bring More Disaster. Retrieved on April 29th, 2009, from <http://www.aflcio.org/issues/jobseconomy/globaleconomy/ns04192001.cfm>

³⁰ Lobe, J. (2001) NAFTA Falling Short On Worker's Rights. Retrieved May 2nd, 2009, from <http://www.twinside.org.sg/title/worker.htm>

³¹ Lobe, J. (2001) NAFTA Falling Short On Worker's Rights. Retrieved May 2nd, 2009, from <http://www.twinside.org.sg/title/worker.htm>

despite strong evidence to support the claims, not one violator was found guilty or had sanctions levied against them for any wrongdoing³².

Unions and key figures that protect workers rights have been the target of unjust treatment from corrupt officials for years following NAFTA. Horror stories of Mexican workers trying to start unions and being met with violence and resistance from corrupt officials is commonplace in Mexico. There are two cases specifically that tell of such malpractice. In 2006, Napoleon Gomez Urrutia, was forcefully removed as head of the leader of the mine workers union. He decried the government and the Grupo Mexico mining company for an accident in which 65 miners were killed. On April 15, 2009 a warrant was issued for his arrest despite the fact that two others were invalidated the same day, and he lives in exile in Canada as a result of death threats³³. In 2007, Santiago Rafael Cruz who was a member of the Farm Labour Organizing Committee was murdered in Monterrey in 2007. What's disturbing is the fact that Cruz was found bound, gagged and beaten, and labour leaders and human right activists suggest this was a premeditated political attack³⁴. Two years later, no arrests, and virtually no leads exist in his killing³⁵.

In the final analysis, the blame seems to with the government for not enforcing any actions against guilty parties. A New York Times article from 1998 quoted Mexican officials as saying that their labour laws did not do enough to protect their workers³⁶. This was a point of contention for President Obama when he was running for the presidency as he suggested parts of NAFTA should be re-negotiated, and specifically cited environmental and workers rights provisions. However, after consulting with Mexican

³² Lobe, J. (2001). NAFTA Falling Short On Worker's Rights. Retrieved May 2nd, 2009, from <http://www.twinside.org.sg/title/worker.htm>

³³ Parks, J. (2009). AFL-CIO Urges Obama To Discuss Workers' Rights In Mexico. Retrieved May 2nd, 2009, from <http://blog.aflcio.org/2009/04/16/afl-cio-urges-obama-to-discuss-workers-rights-in-mexico/>

³⁴ Smith-Nonini, S. (2007). Murder In Nuevo Leon. Retrieved on May 4th, 2009, from <http://www.southernstudies.org/2007/04/facing-south-exclusive-murder-of.html>

³⁵ Parks, J. (2009). AFL-CIO Urges Obama To Discuss Workers' Rights In Mexico. Retrieved May 2nd, 2009, from <http://blog.aflcio.org/2009/04/16/afl-cio-urges-obama-to-discuss-workers-rights-in-mexico/>

³⁶ DePalma, A. (1998). Mexico May Face Sanctions For Not Protecting Workers' Rights. Retrieved May 1st, 2009, from <http://www.latinamericanstudies.org/mexico/nafta.htm>

delegates at a conference of the Americas in Trinidad and Tobago in April of 2009, both Obama and Mexican President Calderon agreed that NAFTA needn't be re-opened. Mexico, in particular was not advocating any such negotiations because it would seem that they have much more to lose.

CONCLUSION

This paper has illustrated how NAFTA has been detrimental to Mexico. Provisions that were negotiated in NAFTA have not been enforced which has led to large scale socioeconomic problems and in many ways has left Mexico worse off than it was before. Despite the fact that NAFTA has enabled Mexico to attain the world's seventh largest GDP valued at \$768 billion USD³⁷, it has come at the expense of the environment, job loss, increases in poverty, and lax labour regulations. These provisions must be re-evaluated and enforced to clearly illustrate the intended benefits of NAFTA set forth in 1994.

NAFTA was designed in part to improve trade between America, Canada and Mexico and while this was achieved, the Mexican government did not invest the FDI into domestic infrastructure projects such as improved roadways, cheaper electricity, cleaner waterways, and a focus on education³⁸. Kevin Gallagher, a research associate at Tufts University's Global Development and Environment Institute was quoted as saying, "NAFTA for Mexico has been a success in terms of increasing trade and foreign investment until about 2000."³⁹ In addition to this, the Mexican government has not been able to establish a domestic demand for domestic products, and has seen a huge flood of US imports which has resulted in more jobs lost for Mexico.

Is it too late for NAFTA to succeed socioeconomically in Mexico? Time will certainly tell, and with the emergence of China as a low labour cost producer, Mexico will certainly have to make major adjustments to its economic policies domestically and within NAFTA if it hopes to not only compete, but survive in the global marketplace.

³⁷ Carbaugh, R. (2009). *International Economics*, 12th Edition, South Western (CA), pg.289

³⁸ Carbaugh, R. (2009). *International Economics*, 12th Edition, South Western (CA), pg.287

³⁹ Bussey, J. (2003). *Ten Years After NAFTA, Both Sides Are Still Divided*. Retrieved May 1st, 2009, from <http://www.geocities.com/ericsquire/articles/ftaa/mh031110d.htm>

According to Luis de la Calle, the former deputy trade minister of Mexico, “We are now witnessing the beginning of the end of the preferential agreement; we reached the end of the benefits of NAFTA in 2003⁴⁰.”

⁴⁰ Bussey, J. (2003). Ten Years After NAFTA, Both Sides Are Still Divided. Retrieved May 1st, 2009, from <http://www.geocities.com/ericsquire/articles/ftaa/mh031110d.htm>